

# PERAC AUDIT REPORT



## Chelsea Contributory Retirement System

JAN. 1, 2002 - DEC. 31, 2004 / PERAC 04: 12-026-01



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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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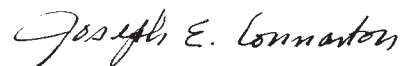
September 7, 2006

The Public Employee Retirement Administration Commission has completed an examination of the Chelsea Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2002 to December 31, 2004. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners James Tivnan and Carol Niemira who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director



## Chelsea Retirement System

### **EXPLANATION OF FINDINGS AND RECOMMENDATIONS**

#### **FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2004**

##### **1. Membership**

PERAC auditors sampled members' deductions to determine that the correct rates are being withheld, and that the additional 2% deduction is withheld from those members who make over \$30,000 and were hired after January 1, 1979. The following exceptions were noted:

- Seven members of our sample had payroll deductions based on rates different from the deduction rates assigned in the retirement database records.
- A dozen members were identified who should have been subject to the additional 2% deduction from income over \$30,000 per year, prorated on a per payroll basis, but were not coded correctly in the payroll (MUNIS) system.
- The City payroll contains pay codes that the Retirement System has not determined qualify as regular compensation. Both the City and the Retirement System are actively involved in properly classifying all pay codes available and used in the payroll system.
- Two persons hired by the Chelsea Housing Authority who commenced service in March and May of 2005 were not established as members of the system until November. Two other persons earned wages but there was no indication of their retirement membership status.
- PERAC auditors identified five active members who were age seventy or older. None of these persons had made an election whether or not to continue contributing to the retirement system as required under G.L. c. 32, § 90(G)(3/4), and as outlined in the Massachusetts Public Employee Retirement Guide, revised June 2000. There was no indication in the files that they had been notified or counseled relative to the implications of such an election, which is irrevocable.

**Recommendation:** The System must comply with G.L. c. 32, § 22(1)(b), and PERAC Memo #43/1999, which discusses the additional 2% deductions.

The Retirement System should be notified by its reporting units of all new pay codes and review them to determine their proper classification for qualifying as retirement compensation. In addition, the Retirement System should continue to monitor payroll reports, including those generated from outside payroll services. All persons charged with processing retirement deductions should continue to receive copies of any and all memos or notices relating to new regulations and other changes involving eligibility and contribution rates.

## **Chelsea Retirement System**

### **EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)**

#### **FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2004**

The System must comply with G.L. c. 32, § 90(G)(3/4) and 840 CMR 11.01. At not more than 180 days but less than 120 days before the last day of the month in which a member attains age seventy, the retirement office should contact the member about benefits, options, and procedures for continuing in service beyond age seventy. Pursuant to G.L. c. 32, § 90(G)(3/4), the System should immediately commence using the form "Application by Member Requesting to Continue Retirement Contributions Beyond the Age of 70."

#### **Board Response:**

- The rates of the seven members found to be incorrect have been corrected.
- The Chelsea Retirement System has corrected those members' deductions whose regular compensation should be having the additional 2% withheld.
- The Retirement System and the City of Chelsea payroll office are in the process of reviewing all payroll codes to be sure that only regular compensation is being used in calculating member deductions.
- The two individuals at the Chelsea Housing Authority who had their memberships delayed have been identified and corrected. Two other individuals were having Social Security deducted from their wages. A refund from Social Security is in process and will be applied toward retirement deductions.
- The individuals who reached age 70 have been notified of their ability to discontinue deductions and will be counseled on this issue if necessary.
- Lastly, the Chelsea Retirement System continuously reviews payroll to be sure that all deductions are correct and makes any corrections that are necessary.

#### **2. Current Retirees**

PERAC auditors inspected the files of recent retirees to determine that the correct benefit was calculated by confirming the wage, age, and service factors.

The three-year average salary information is "backed into" from contributions posted to the System for employees other than members of the Police and Fire Department. Department-head approval and verification of salary information was not found within the files inspected.

**Recommendation:** It is recommended that the System require department heads to review and acknowledge the salary history of prospective retirees. Actual payroll records should be used when calculating retirement benefits as required under G.L. c. 32, § 5. Given the number of discrepancies between the payroll records and the retirement system as noted in Finding No. 1, calculating backwards from annual deductions as the primary criteria for determining a benefit is not considered reliable.

## **Chelsea Retirement System**

### **EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)**

**FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2004**

#### **Board Response:**

The Chelsea Retirement System continuously reviews salaries to be sure of the accuracy for retirement calculation purposes.

#### **3. Appropriations**

A review of the appropriations due the Chelsea Retirement System during the audit period, as determined by the PERAC actuary under the provisions of G.L. c. 32, § 22D, determined that the Chelsea Housing Authority (CHA) was not remitting its appropriation according to the August 1 and February 1 funding schedule established by the System. Instead, CHA had paid its entire appropriation for FY 2002, 2003, 2004 and 2005 in June 2002, 2003, 2004, and 2005 respectively, except for the FY 2006 appropriation. The payment due August 1, 2005 was paid December 8, 2005. The current Board Administrator has clarified the desired schedule and suggested a four-part payment plan to the CHA representative. The Housing Authority has, in fact, underpaid its FY 2005 appropriation by \$172, for which it remains obligated, possibly including accrued interest, according to G.L. c. 32, § 22(7)(c)(iv).

**Recommendation:** The Chelsea Retirement System should make every effort to collect appropriations in a timely manner under the provisions of G.L. c. 32, § 22(7)(c). Whenever payments are made after the scheduled date(s), the System should notify the PERAC actuary who will revise the funding schedule to reflect interest at the rate assumed in the most recent actuarial valuation, which is 8.25% as of January 1, 2005.

#### **Board Response:**

The Chelsea Housing Authority made a payment to the Chelsea Retirement System in the amount of \$172.00 on January 18, 2006 to cover the deficiency discovered by PERAC's auditors.

The Chelsea Retirement System is continuing to monitor payments made by the Chelsea Housing Authority and is working with the PERAC Actuarial staff to make sure that the funding schedule is timely and includes adjustments in interest calculations for any late payments.

#### **4. Annuity Reserve Fund Interest Calculation**

The amount of Pensions Paid in January 2004 was inadvertently transposed with the Annuities Paid that month. The Pension Reserve Fund was not properly reduced and the Annuity Reserve Fund was erroneously diminished by \$475,732.93. Additionally, the payment of the annuity portion of the retirees' benefits was recognized on a delayed basis by one month for seven months until corrected. These ledger errors misstated the appropriate monthly ending balances of the Annuity Reserve Fund. The automated calculation that accrues interest on the monthly ending balances of the Annuity Reserve Fund understated the result by \$11,284.18.

## Chelsea Retirement System

### **EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)**

#### **FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2004**

**Recommendation:** An adjusting entry should be made, crediting the Annuity Reserve Fund (ledger no. 3294) and debiting the Pension Reserve Fund (ledger no. 3297) in the amount of \$11,284.18. A review of 2005 ledger transactions indicated that Annuities Paid have been recognized in their respective months, which will avoid similar automated calculation errors.

**Board Response:**

The recommended adjusting entry in the amount of \$11,284.18 was made on the Annual Statement for the year ended December 31, 2005, thereby correcting the interest calculation.

#### **5. Annual Statements**

Based upon inspection of the Annual Statements filed by the Board for the three-year audit period, it was determined that certain line item amounts contained in the Annual Statement either did not agree with the detailed supporting schedules, or were not classified consistently for the three-year period being reported.

- In 2003, Excess Investment Income on the Investment Income page differed from that on the Receipts page, due to an entry of approximately \$13,500 that was not transferred to the Income page by the automated system. In 2004, one of the Balance Tests did not add correctly, and there were inconsistent differences between two of the three tests. The difference was attributed to an overstatement of \$139.20 in Administrative Expenses. Several typographical errors that changed numbers by immaterial amounts were observed within the Statement of Changes in Fund Balances. This statement was additionally affected by the \$139.20 overstatement in Administrative Expenses.
- In 2002 and 2004, certain line item amounts in the Annual Statement did not correspond with the detailed supporting schedules, which were prepared by the custodian. The System's checking account and the interest it generated were inadvertently omitted from the supplemental schedules. Discrepancies were observed between the general ledger investment income and the results reported on the supplemental schedules for investment income generated by pooled funds, and realized and unrealized gains and losses on investments. These were attributed to the custodian using a slightly different reporting method than the one approved by PERAC and used by the Chelsea Retirement System.

**Recommendation:** The Annual Statement, annually filed with PERAC, is the primary source of financial information to unrelated parties for the Chelsea Retirement System. In order to allow readers to make an informed assessment of the financial condition of the System, the various primary financial statements must agree with the supplemental schedules filed as supporting detail. The financial information must similarly agree where reported results flow through the financial statements.

## **Chelsea Retirement System**

### **EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)**

#### **FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2004**

Although an automated system is used to produce the Annual Statement, inconsistencies apparently can still be generated, necessitating a thorough proofreading. The general ledger containing final adjustments and closing entries for 2004 was not available to the auditors due to temporary software issues at year-end. As a result, the source of the \$139.20 discrepancy in Administrative Expenses could not be specifically identified.

The Chelsea Retirement System is currently participating exclusively in investments of the Pension Reserves Investment Trust and does not utilize its own custodian. Should a custodian be required in the future, custodian-generated supporting schedules must be modified to include any missing information, such as that for the System's checking account. Discrepancies between the general ledger and supporting schedules for custodian-calculated investment income and gains and losses should be investigated and custodian schedules corrected, as necessary, to agree with their respective general ledger balances.

#### **Board Response:**

- The entry for the \$13,500.00 was reviewed. The software did not appropriately post the entry to the correct accounts. In the future, all entries will be checked for correct posting.
- The Chelsea Retirement System was using the correct method of reporting pooled fund income to PERAC and agrees with this finding.

#### **Final determination**

***PERAC audit staff will follow-up in six (6) months to ensure appropriate actions have been taken regarding all findings.***



## Chelsea Retirement System

### STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE THREE-YEAR PERIOD BEGINNING JANUARY 1, 2002  
AND ENDING DECEMBER 31, 2004**

<b>FOR THE PERIOD ENDING DECEMBER 31,</b>			
<b>ASSETS</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Cash	\$552,667	\$301,725	\$53,687
Short Term Investments	117,977	322,852	306,512
Equities	4,760,407	3,982,212	2,931,647
Pooled Domestic Equity Funds	18,710,800	18,609,500	14,709,263
Pooled International Equity Funds	7,106,282	6,401,194	2,590,112
Pooled Domestic Fixed Income Funds	11,387,729	10,969,775	11,888,044
Pooled Real Estate Funds	3,763,504	0	0
PRIT Cash Fund	0	0	0
PRIT Core Fund	0	0	0
Interest Due and Accrued	174	309	158
Accounts Receivable	3,355,378	2,880,533	3,301,051
Accounts Payable	0	(5,415)	(159,255)
<b>TOTAL</b>	<b><u>\$49,754,917</u></b>	<b><u>\$43,462,685</u></b>	<b><u>\$35,621,219</u></b>
 <b>FUND BALANCES</b>			
Annuity Savings Fund	\$19,850,146	\$18,090,834	\$17,467,004
Annuity Reserve Fund	5,351,444	5,397,511	4,811,070
Pension Fund	7,214,805	7,236,513	7,321,986
Military Service Fund	2,322	2,308	2,285
Expense Fund	0	0	0
Pension Reserve Fund	17,336,200	12,735,519	6,018,873
<b>TOTAL</b>	<b><u>\$49,754,917</u></b>	<b><u>\$43,462,685</u></b>	<b><u>\$35,621,219</u></b>

## Chelsea Retirement System

### STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE THREE-YEAR PERIOD BEGINNING JANUARY, 1 2002  
AND ENDING DECEMBER 31, 2004**

	<b>Annuity Savings Fund</b>	<b>Annuity Reserve Fund</b>	<b>Pension Fund</b>	<b>Military Service Fund</b>	<b>Expense Fund</b>	<b>Pension Reserve Fund</b>	<b>Total All Funds</b>
<b>Beginning Balance 2002</b>	\$16,138,812	\$4,662,596	\$6,449,576	\$2,254	\$0	\$10,246,835	<b>\$37,500,072</b>
Receipts	2,361,481	135,538	6,807,714	32	261,698	(4,222,524)	<b>5,343,939</b>
Interfund Transfers	(686,434)	691,871	0	0	0	(5,438)	<b>0</b>
Disbursements	(346,855)	(678,935)	(5,935,303)	0	(261,698)	0	<b>(7,222,792)</b>
<b>Ending Balance 2002</b>	<b>17,467,004</b>	<b>4,811,070</b>	<b>7,321,986</b>	<b>2,285</b>	<b>0</b>	<b>6,018,873</b>	<b>35,621,219</b>
Receipts	2,334,021	148,115	6,297,829	23	267,946	6,716,645	<b>15,764,579</b>
Interfund Transfers	(1,129,741)	1,129,741	0	0	0	0	<b>0</b>
Disbursements	(580,450)	(691,416)	(6,383,302)	0	(267,946)	0	<b>(7,923,114)</b>
<b>Ending Balance 2003</b>	<b>18,090,834</b>	<b>5,397,511</b>	<b>7,236,513</b>	<b>2,308</b>	<b>0</b>	<b>12,735,519</b>	<b>43,462,685</b>
Receipts	2,502,190	149,223	6,522,767	14	367,912	4,600,681	<b>14,142,787</b>
Interfund Transfers	(478,787)	478,787	0	0	0	0	<b>0</b>
Disbursements	(264,091)	(674,076)	(6,544,474)	0	(367,912)	0	<b>(7,850,554)</b>
<b>Ending Balance 2004</b>	<b><u>\$19,850,146</u></b>	<b><u>\$5,351,444</u></b>	<b><u>\$7,214,805</u></b>	<b><u>\$2,322</u></b>	<b><u>\$0</u></b>	<b><u>\$17,336,200</u></b>	<b><u>\$49,754,917</u></b>

# Chelsea Retirement System

## STATEMENT OF INCOME

**FOR THE THREE-YEAR PERIOD BEGINNING JANUARY 1, 2002  
AND ENDING DECEMBER 31, 2004**

	<b>FOR THE PERIOD ENDING DECEMBER 31,</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>Annuity Savings Fund:</b>			
Members Deductions	\$2,092,171	\$1,987,682	\$1,978,081
Transfers from other Systems	289,377	95,853	138,754
Member Make Up Payments and Redeposits	13,714	91,698	23,710
Investment Income Credited to Member Accounts	<u>106,928</u>	<u>158,788</u>	<u>220,936</u>
<b>Sub Total</b>	<b><u>2,502,190</u></b>	<b><u>2,334,021</u></b>	<b><u>2,361,481</u></b>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited Annuity Reserve Fund	<u>149,223</u>	<u>148,115</u>	<u>135,538</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems	89,916	56,068	54,569
Received from Commonwealth for COLA and Survivor Benefits	282,014	480,695	608,875
Pension Fund Appropriation	6,150,836	5,761,066	6,143,646
Refund of Partial Pension	<u>0</u>	<u>0</u>	<u>625</u>
<b>Sub Total</b>	<b><u>6,522,767</u></b>	<b><u>6,297,829</u></b>	<b><u>6,807,714</u></b>
<b>Military Service Fund:</b>			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited Military Service Fund	<u>14</u>	<u>23</u>	<u>32</u>
<b>Sub Total</b>	<b><u>14</u></b>	<b><u>23</u></b>	<b><u>32</u></b>
<b>Expense Fund:</b>			
Expense Fund Appropriation	0	0	0
Investment Income Credited to Expense Fund	<u>367,912</u>	<u>267,946</u>	<u>261,698</u>
<b>Sub Total</b>	<b><u>367,912</u></b>	<b><u>267,946</u></b>	<b><u>261,698</u></b>
<b>Pension Reserve Fund:</b>			
Federal Grant Reimbursement	49,603	53,576	48,269
Pension Reserve Appropriation	0	0	0
Interest Not Refunded (Refunded)	(1,230)	5,863	5,834
Miscellaneous Income	3,600	0	1,022
Excess Investment Income (Deficit)	<u>4,548,709</u>	<u>6,657,206</u>	<u>(4,277,649)</u>
<b>Sub Total</b>	<b><u>4,600,681</u></b>	<b><u>6,716,645</u></b>	<b><u>(4,222,524)</u></b>
<b>TOTAL RECEIPTS</b>	<b><u>\$14,142,787</u></b>	<b><u>\$15,764,579</u></b>	<b><u>\$5,343,939</u></b>

# Chelsea Retirement System

## STATEMENT OF DISBURSEMENTS

**FOR THE THREE-YEAR PERIOD BEGINNING JANUARY 1, 2002  
AND ENDING DECEMBER 31, 2004**

<b>FOR THE PERIOD ENDING DECEMBER 31,</b>			
	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>Annuity Savings Fund:</b>			
Refunds to Members	\$116,037	\$358,077	\$207,282
Transfers to other Systems	148,054	222,373	139,573
<b>Sub Total</b>	<b><u>264,091</u></b>	<b><u>580,450</u></b>	<b><u>346,855</u></b>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	674,076	649,378	592,767
Option B Refunds	0	42,037	86,168
<b>Sub Total</b>	<b><u>674,076</u></b>	<b><u>691,416</u></b>	<b><u>678,935</u></b>
<b>Pension Fund:</b>			
Pensions Paid			
Regular Pension Payments	3,143,514	2,903,563	2,587,970
Survivorship Payments	395,654	358,204	341,777
Ordinary Disability Payments	166,499	168,859	166,103
Accidental Disability Payments	1,552,815	1,592,978	1,688,078
Accidental Death Payments	974,148	813,385	903,783
Section 101 Benefits	144,988	434,144	143,584
3 (8) (c) Reimbursements to Other Systems	166,855	112,169	103,865
Miscellaneous Transfer to Deductions	0	0	143
<b>Sub Total</b>	<b><u>6,544,474</u></b>	<b><u>6,383,302</u></b>	<b><u>5,935,303</u></b>
<b>Military Service Fund:</b>			
Return to Municipality for Members Who Withdrew Their Funds	0	0	0
<b>Expense Fund:</b>			
Board Member Stipend	16,500	12,131	12,131
Salaries	123,146	97,777	93,368
Legal Expenses	12,000	12,000	12,000
Medical Expenses	158	0	0
Travel Expenses	1,894	1,072	446
Administrative Expenses	41,290	17,943	15,355
Furniture and Equipment	0	5,364	0
Management Fees	99,524	60,821	68,934
Service Contracts	11,669	0	0
Custodial Fees	21,732	20,838	19,465
Consultant Fees	40,000	40,000	40,000
<b>Sub Total</b>	<b><u>367,912</u></b>	<b><u>267,946</u></b>	<b><u>261,698</u></b>
<b>TOTAL DISBURSEMENTS</b>	<b><u>\$7,850,554</u></b>	<b><u>\$7,923,114</u></b>	<b><u>\$7,222,792</u></b>

# Chelsea Retirement System

## INVESTMENT INCOME

**FOR THE THREE-YEAR PERIOD BEGINNING JANUARY 1, 2002  
AND ENDING DECEMBER 31, 2004**

	<b>FOR THE PERIOD ENDING DECEMBER 31,</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>Investment Income Received From:</b>			
Cash	\$1,575	\$0	\$0
Short Term Investments	8,575	4,959	29,474
Fixed Income	0	0	0
Equities	51,546	89,619	69,508
Pooled or Mutual Funds	1,103,311	617,690	770,252
Securities Lending Income (Loss)	<u>0</u>	<u>0</u>	<u>(1,782)</u>
<b>TOTAL INVESTMENT INCOME</b>	<b><u>1,165,007</u></b>	<b><u>712,268</u></b>	<b><u>867,452</u></b>
<b>Plus:</b>			
Realized Gains	615,777	2,085,685	706,962
Unrealized Gains	4,093,565	4,944,644	434,941
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>174</u>	<u>309</u>	<u>158</u>
<b>Sub Total</b>	<b><u>4,709,516</u></b>	<b><u>7,030,638</u></b>	<b><u>1,142,061</u></b>
<b>Less:</b>			
Realized Loss	(193,729)	(365,607)	(1,390,073)
Unrealized Loss	(507,699)	(145,063)	(4,275,532)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(309)</u>	<u>(158)</u>	<u>(3,354)</u>
<b>Sub Total</b>	<b><u>(701,738)</u></b>	<b><u>(510,829)</u></b>	<b><u>(5,668,959)</u></b>
<b>NET INVESTMENT INCOME</b>	<b><u>5,172,786</u></b>	<b><u>7,232,078</u></b>	<b><u>(3,659,445)</u></b>
<b>Income Required:</b>			
Annuity Savings Fund	106,928	158,788	220,936
Annuity Reserve Fund	149,223	148,115	135,538
Military Service Fund	14	23	32
Expense Fund	<u>367,912</u>	<u>267,946</u>	<u>261,698</u>
<b>TOTAL INCOME REQUIRED</b>	<b><u>624,077</u></b>	<b><u>574,872</u></b>	<b><u>618,204</u></b>
Net Investment Income	<u>5,172,786</u>	<u>7,232,078</u>	<u>(3,659,445)</u>
Less: Total Income Required	<u>624,077</u>	<u>574,872</u>	<u>618,204</u>
<b>EXCESS INCOME TO THE PENSION RESERVE FUND</b>	<b><u>\$4,548,709</u></b>	<b><u>\$6,657,206</u></b>	<b><u>(\$4,277,649)</u></b>

## Chelsea Retirement System

### **STATEMENT OF ALLOCATION OF INVESTMENTS OWNED**

(percentages by category)

**FOR THE PERIOD ENDING DECEMBER 31, 2004**

	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$552,667	1.19%	100
Short Term	117,977	0.25%	100
Fixed Income	0	0.00%	40 - 80
Equities	4,760,407	10.26%	40
Pooled Domestic Equity Funds	18,710,800	40.33%	
Pooled International Equity Funds	7,106,282	15.32%	
Pooled Domestic Fixed Income Funds	11,387,729	24.54%	
Pooled Real Estate Funds	3,763,504	8.11%	
PRIT Cash Fund	0	0.00%	
PRIT Core Fund	<u>0</u>	<u>0.00%</u>	100
<b>GRAND TOTALS</b>	<b><u>\$46,399,365</u></b>	<b><u>100.00%</u></b>	

For the year ending December 31, 2004, the rate of return for the investments of the Chelsea Retirement System was 12.64%. For the five-year period ending December 31, 2004, the rate of return for the investments of the Chelsea Retirement System averaged 1.40%. For the twenty-year period ending December 31, 2004, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the Chelsea Retirement System was 8.71%.

## **Chelsea Retirement System**

### **SUPPLEMENTARY INVESTMENT REGULATIONS**

**FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2004**

The Chelsea Retirement System submitted the following supplementary investment regulation, which was approved by PERAC on :

March 31, 2004

16.08

In accordance with PERAC Investment Guideline 99-2, the Chelsea Retirement Board is authorized to modify its large cap equity mandate with RhumbLine Advisers. As part of a rebalancing of its equity portfolio intended to reduce any possible style bias, RhumbLine's mandate will change from large cap value (Russell 1000 Value Index) to large cap core (S&P 500 Index). The Board determined through interviews that RhumbLine's product offers the lowest management fees. Transferring the assets in this manner would also result in savings in transaction costs.

# **Chelsea Retirement System**

## **NOTES TO FINANCIAL STATEMENTS**

### **FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2004**

#### **NOTE 1 - THE SYSTEM**

The plan is a contributory defined benefit plan covering all Chelsea Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement benefits that were due each year.



## **Chelsea Retirement System**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

#### **FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2004**

Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

#### **NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

## **Chelsea Retirement System**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

#### **FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2004**

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

#### **NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS**

The Chelsea Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

##### **January 26, 2005**

##### **Part-Time Service Credit**

Effective January 26, 2005, in order to be eligible for membership in the Chelsea Contributory Retirement System, permanent part-time or permanent full time employees must be hired to work at least twenty (20) hours per week in a calendar year. A permanent part-time or permanent full time employee is defined as any employee who is hired to work at least twenty (20) hours per week in a calendar year, or if employed in more than one position, such that when the hours of employment are added together those hours shall equal at least 20 hours per week in a calendar year. Any additional time worked on a temporary or employee elected basis, such as additional shifts filling in

## **Chelsea Retirement System**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

#### **FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2004**

for vacation or sick time, do not count towards the twenty-hour minimum requirement for membership.

#### **February 13, 1998**

##### **Military Service Credit**

Any member seeking military service credit in accordance with the provisions of C. 71 of the Acts of 1996, who is eligible for such credit as of September 19, 1997, must submit an application for such service on or before March 16, 1998. Members, who become eligible for military service credit after September 19, 1997, shall be notified of their eligibility by the Retirement Board and must submit an application for such credit within 180 days of receipt of notification. The Retirement Board will review each application to determine the member's eligibility, and will notify each eligible applicant in writing of the amount of service which may be purchased, and of the amount of the required payment. The member must then remit the full-required payment in one lump sum to the Retirement Board on or before the forty fifth day following the member's receipt of notification of eligibility, or on or before the date immediately preceding the member's date of retirement, whichever date first occurs.

#### **August 31, 1992**

##### **Election Rules**

Approval of a 60-day election schedule for the upcoming Retirement board election.

#### **July 22, 1988**

##### **Form**

Approval of disability retirement Form A which provides: "The applicant is required to submit with his/her application for disability retirement benefits all medical records and or reports relating to the applicant's claim for disability benefits."

#### **May 5, 1986**

##### **Membership**

Permanent full-time employees of the City will be admitted to membership in the retirement system subject to the following conditions:

- The Department Head shall supply the Retirement Board with a list of all employees, their annual salaries, and the date of their original appointment to said office.
- The deduction to be withheld from the salary of each member who became an employee after January 1, 1984 must be 8%.
- Employees may request, in writing, permission to make up payments for their previous employment with the City or any agency which has been accepted as a member of the retirement system. The amount to be withheld for the make-up period only, not extending beyond January 1, 1984 shall be based on the percentage in effect on the original date of the employee's employment.
- The make up payment of those deductions that would have been made, had the employee become a member of the Retirement system on the original date of employment, shall be the

## **Chelsea Retirement System**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

#### **FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2004**

percentage in effect on said date, plus interest to the completion of the make up payment. For the period beginning January 1, 1984, and thereafter, the percentage withheld is 8%.

- Each employee requesting permission to make up payments for their previous employment shall provide the Retirement board with a verified list of salaries, earned by them, by calendar year, not including any overtime or bonuses, so that a make up payment can be calculated.
- Any member who has previously been employed by the Commonwealth of Massachusetts or any political subdivision thereof, and a member of its retirement system must inform the retirement board so that inquiry can be made as to the disposition of said employee's accumulated deductions.
- Each employee seeking to become a member of the Retirement System must complete an enrollment form, which must be accompanied by a copy of said employee's birth certificate, and if a veteran, a copy of their military discharge papers.

December 28, 1984

#### **Membership**

All new members must file proof of their date of birth with their application for membership.

#### **Access to Medical Information**

No medical information contained in an employee file or in a medical panel report will be dispensed to anyone without the written permission of the member concerned, whether retired or not - provided that authorized individuals such as representatives of the Division of Public Employee Retirement and the Retirement Board may still be granted access.

#### **Creditable Service**

Upon granting membership to permanent intermittent employees of the school cafeteria, it was determined that these employees shall be granted credit for that proportion of the number of hours worked as it bears to the number of hours a regularly employed full-time cafeteria employee is required to work during a school year, to obtain a full year of creditable service, 1400 hours.

#### **Disability Waiver**

Any waivers of a physical condition that may have been signed by an employee in order to obtain their positions with the City, must be sent to the Retirement Board at once. Any future such waivers that may be signed must be forwarded to the Retirement board immediately.

## **Chelsea Retirement System**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

#### **FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2004**

##### **NOTE 4 - ADMINISTRATION OF THE SYSTEM**

The System is administered by a five person Board of Retirement consisting of the City Auditor who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: Thomas Durkin

Appointed Member:	Richard Incerto	Term Expires:	when successor is named
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Elected Member:	Joseph Siewko, chairman	Term Expires:	12/17/05
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Elected Member:	Leo Graves, Sr.	Term Expires:	10/12/07
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Appointed Member:	Carolyn Russo	Term Expires:	1/29/06
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The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:	)	Crime \$1,000,000
Ex officio Member:	)	National Union Fire Insurance Co.
Elected Member:	)	of Pittsburgh, PA
Appointed Member:	)	Fiduciary Liability \$2,000,000
Staff Employee:	)	RLI Insurance Co.

## Chelsea Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2004

#### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by PERAC as of January 1, 2005.

The actuarial liability for active members was	\$56,711,367
The actuarial liability for vested terminated members was	455,782
The actuarial liability for non-vested terminated members was	594,289
The actuarial liability for retired members was	<u>56,864,509</u>
The total actuarial liability was	<b>114,625,947</b>
System assets as of that date were	<u>50,307,347</u>
The unfunded actuarial liability was	<b><u>\$64,318,600</u></b>
 The ratio of system's assets to total actuarial liability was	 43.9%
As of that date the total covered employee payroll was	\$24,442,724

The normal cost for employees on that date was 8.17% of payroll

The normal cost for the employer was 7.91% of payroll

The principal actuarial assumptions used in the valuation are as follows:

**Investment Return:** 8.25% per annum  
**Rate of Salary Increase:** Varies by Group and Service

#### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2005

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a % of Cov. Payroll ( (b-a)/c )
1/1/2005	\$ 50,307,347	\$ 114,625,947	\$ 64,318,600	43.9%	\$ 24,442,724	263.1%
1/1/2003	\$ 40,964,402	\$ 105,624,172	\$ 64,659,770	38.8%	\$ 23,843,392	271.2%
1/1/2001	\$ 39,748,307	\$ 88,940,495	\$ 49,192,188	44.7%	\$ 20,265,717	242.7%
1/1/1999	\$ 39,899,336	\$ 84,532,145	\$ 44,632,809	47.2%	\$ 17,363,858	257.0%
1/1/1997	\$ 31,508,768	\$ 67,397,852	\$ 35,889,084	46.8%	\$ 16,134,846	222.4%

## Chelsea Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

**FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2004**

#### NOTE 6 - MEMBERSHIP EXHIBIT

<b>Retirement in Past Years</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Superannuation	1	3	1	4	7	8	4	10	24	9
Ordinary Disability	0	0	1	0	0	1	0	0	1	0
Accidental Disability	1	2	4	2	1	0	3	3	0	0
<b>Total Retirements</b>	<b>2</b>	<b>5</b>	<b>6</b>	<b>6</b>	<b>8</b>	<b>9</b>	<b>7</b>	<b>13</b>	<b>25</b>	<b>9</b>
Total Retirees, Beneficiaries and Survivors	456	445	441	440	434	426	405	398	428	442
<b>Total Active Members</b>	<b>583</b>	<b>559</b>	<b>580</b>	<b>587</b>	<b>618</b>	<b>657</b>	<b>646</b>	<b>663</b>	<b>627</b>	<b>689</b>
<b>Pension Payments</b>										
Superannuation	\$2,581,225	\$2,460,489	\$2,571,061	\$2,433,361	\$2,557,300	\$2,495,509	\$2,523,599	\$2,587,970	\$2,903,563	\$3,143,514
Survivor/Beneficiary Payments	287,392	331,222	375,210	376,012	413,137	391,573	366,168	341,777	358,204	395,654
Ordinary Disability	231,437	220,879	208,534	190,113	180,386	174,904	168,965	166,103	168,859	166,499
Accidental Disability	1,673,419	1,607,483	1,952,731	1,630,966	1,680,203	1,654,347	1,704,245	1,688,078	1,592,978	1,552,815
Other	<u>857,091</u>	<u>922,050</u>	<u>942,248</u>	<u>946,172</u>	<u>904,648</u>	<u>917,726</u>	<u>945,098</u>	<u>1,047,368</u>	<u>1,247,529</u>	<u>1,119,136</u>
<b>Total Payments for Year</b>	<b><u>\$5,630,564</u></b>	<b><u>\$5,542,123</u></b>	<b><u>\$6,049,784</u></b>	<b><u>\$5,576,624</u></b>	<b><u>\$5,735,674</u></b>	<b><u>\$5,634,060</u></b>	<b><u>\$5,708,076</u></b>	<b><u>\$5,831,296</u></b>	<b><u>\$6,271,133</u></b>	<b><u>\$6,377,619</u></b>

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